







ONTARIO

ONTARIO SECURITIES COMMISSION

May 17, 1967

EXEMPT PURCHASERS

For the convenience of interested parties, herewith a list of the persons and companies who have applied for and obtained recognition as exempt purchasers under Section 19(1)(3) of The Securities Act, R.S.O. 1960, c.363, as amended and Section 19(1)(3) of The Securities Act, 1966. As a matter of policy, the Commission will publish the names of exempt purchasers as the status is granted.

ALLPAK PRODUCTS LIMITED	Room 820, 291 Dundas St. LONDON, Ontario.
ALONZO MATHER FOUNDATION, THE	1615 Hinman Ave. EVANSTON, Ill.
AMERICAN UNITED LIFE INSURANCE COMPANY	30 West Fall Creek Pkwy. INDIANAPOLIS, Ind. 46206
AVCO CORPORATION	750 Third Ave. New York 17, N. Y.
Address for service in Ontario - c/o E.C. Elwood, 609 Canada Trust Bldg., London, Ont.	
AVCO DELTA CORPORATION	c/o F.W. Dowler 291 Dundas St. LONDON, Ontario
BANKERS TRUST COMPANY	16 Wall St. NEW YORK 10015
CANADIAN GENERAL ELECTRIC PENSION TRUST	214 King Street W. TORONTO, Ontario.
CANADIAN TRUSTEED INCOME FUND	7 King Street E. TORONTO.
CARTIER PENSION TRUST	Port Cartier, P.Q.
CARTIER RETIREMENT FUND	PORT CARTIER, P.Q.
CENTRAL MORTGAGE AND HOUSING CORPORATION PENSION FUND	Montreal Road OTTAWA 7.
CHARTERHOUSE CANADA LIMITED	60 Yonge Street. TORONTO, Ontario



CHARTERHOUSE GROUP.CANADA LIMITED, THE	60 Yonge Street, TORONTO
CHASE MANHATTAN BANK, THE AS TRUSTEE	1 Chase Manhattan Plaza New York, N.Y. 10015
CITY SAVINGS AND TRUST COMPANY	McLeod Building, EDMONTON, Alta.
COMMERCIAL TRUST COMPANY LIMITED	Room 2875 630 Dorchester Blvd. W. MONTREAL 2, P.Q.
COMMONWEALTH EDISON SERVICE ANNUITY FUND	72 West Adams St. CHICAGO, Ill. 60690
COMMONWEALTH LIFE INSURANCE COMPANY	Commonwealth Bldg. Louisville, Kentucky 40202
CONNECTICUT MUTUAL LIFE INSURANCE COMPANY, THE	140 Garden St. HARTFORD, Conn.
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO	321 South LaSalle St. CHICAGO, Ill. 60690
EATON RETIREMENT ANNUITY PLAN	1 Hayter St., TORONTO
EMPLOYEES' SAVINGS AND PROFIT SHARING FUND OF THE DEKALB AGRICULTURAL ASSOCIATION INC.	310 North Fifth St. DeKalb, Illinois
FIDELITY MUTUAL LIFE INSURANCE COMPANY, THE	The Parkway at Fairmount Ave. PHILADELPHIA, Pa.
FIDELITY MUTUAL LIFE INSURANCE COMPANY, FIDELITY EMPLOYEES' SEPARATE ACCOUNT, THE	The Parkway at Fairmount Ave., PHILADELPHIA, Pa.
FRANKLIN LIFE INSURANCE, THE	Franklin Square, Springfield, Ill. 62705
GENERAL ELECTRIC PENSION TRUST	570 Lexington Ave. New York, N.Y. 10022
GIRARD TRUST BANK	Broad & Chestnut Sts. PHILADELPHIA, Pa. 19101
GROUPED INCOME SHARES LIMITED	340 Bentall Bldg. CALGARY, Alta.



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GUARDIAN GROWTH FUND LIMITED	48 Yonge St. TORONTO, Ontario
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HARRIS TRUST AND SAVINGS BANK TRUST DEPARTMENT	111 West Monroe St. CHICAGO, Ill. 60690
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HOME FOR DESTITUTE CRIPPLED CHILDREN, THE	c/o Continental Illinois Bank & Trust Co. of Chicago. 231 LaSalle St. CHICAGO
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HOME LIFE INSURANCE COMPANY	253 Broadway, NEW YORK, N.Y.
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HYDRO ELECTRIC POWER COMMISSION OF ONTARIO, THE PENSION FUND TRUSTEE	620 University Ave. Toronto 2.
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INVESTORS GROUP, THE	130 Bloor St. W. Room 618, TORONTO
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ILLINOIS INSTITUTE OF TECHNOLOGY	3300 South Federal St. CHICAGO 60616
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IMASCO PENSION FUND SOCIETY	3810 St. Antoine St. MONTREAL 30, P.Q.
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INVESTORS GROWTH FUND OF CANADA	618 - 130 Bloor St. W. TORONTO.
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INVESTORS INTERNATIONAL MUTUAL FUND LTD.	618 - 130 Bloor St. W. TORONTO
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INVESTORS MUTUAL OF CANADA LTD.	618 - 130 Bloor St. W. TORONTO.
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INVESTORS SYNDICATE LIMITED	130 Bloor St. W. Room 618, TORONTO
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KAPS OILFIELD HAULING LTD. PENSION FUND	609 Tegler Bldg. EDMONTON, Alberta
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KELLOGG COMPANY SAVINGS AND INVESTMENT FUND	111 West Monroe CHICAGO 60690
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W. K. KELLOGG FOUNDATION	BATTLE CREEK, Mich.
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KEYSTONE CUSTODIAN FUNDS INC.	50 Congress St. BOSTON, Mass.
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KNIGHTS OF COLUMBUS	71 Meadow Street, NEW HAVEN, Conn. 06507
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LIFE AND CASUALTY INSURANCE COMPANY OF TENNESSEE	Life and Casualty Tower NASHVILLE, Tenn.
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LINCOLN NATIONAL LIFE INSURANCE COMPANY, THE	1301 South Harrison St. FORT WAYNE, Indiana.
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LUTHERAN CHURCH, THE - MISSOURI SYNOD (PENSION FUND)	210 North Broadway St. Louis, Miss. 63102
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MANUFACTURERS HANOVER TRUST COMPANY, TRUST DIVISION	350 Park Ave. New York 10022 212-315-3300
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THE COLLECTIVE TRUST, MARINE MIDLAND GRACE TRUST COMPANY OF NEW YORK	120 Broadway, NEW YORK, N.Y. 10015
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McMASTER UNIVERSITY	HAMILTON, Ontario.
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METHODIST OLD PEOPLES HOME	1415 West Foster Ave. CHICAGO 60640
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MODERN WOODMEN OF AMERICA	1504 Third Avenue ROCK ISLAND, ILLINOIS 61202
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MORGAN GUARANTY TRUST COMPANY OF NEW YORK	23 Wall St. NEW YORK, N.Y.
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MUTUAL BENEFIT LIFE INSURANCE COMPANY, THE	520 Broad Street, NEWARK 1, N.J.
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MUTUAL TRUST LIFE INSURANCE COMPANY	77 South Wacker Dr. CHICAGO, Ill.
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NATIONAL FIRE INSURANCE COMPANY OF HARTFORD	310 South Michigan Ave. CHICAGO, Ill. 60604
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NATIONAL LIFE INSURANCE COMPANY	Montpelier, Vermont.
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North West Life Assurance Company	2184 West Broadway VANCOUVER 9, B.C.
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NORTH WEST TRUST COMPANY	10166 100th St. EDMONTON, Alta.
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NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY, THE	720 East Wisconsin Ave. Milwaukee, Wis. U.S.A.
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NORTHWESTERN NATIONAL LIFE INSURANCE COMPANY	Box 20, Minneapolis, Minn. 55440.
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OHIO NATIONAL LIFE INSURANCE COMPANY, THE	237 William Howard Taft Rd. CINCINNATI, Ohio 45219
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ONTARIO PENSION FUND OF THE INTERNATIONAL NICKEL COMPANY OF CANADA LIMITED	55 Yonge Street, TORONTO 1.
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PENSION FUND OF GEORGE WESTON LIMITED	Suite 1300, 25 King St. W. TORONTO.
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PEOPLES LIFE INSURANCE COMPANY	601 New Hampshire Ave. N.W. WASHINGTON, D.C. 20037
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PHOENIX MUTUAL LIFE INSURANCE COMPANY	1 American Row HARTFORD, Conn.
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PRESBYTERIAN HOME, THE	111 West Monroe CHICAGO 60690
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PROVIDENT MUTUAL FUND LTD.	43 Eglinton Ave., TORONTO, Ontario.
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PROVIDENT MUTUAL LIFE INSURANCE COMPANY OF PHILADELPHIA	46th & Market Sts. PHILADELPHIA, Penn. 19101
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QUEBEC TRUST COMPANY - SOCIETE de FIDUCIE due QUEBEC	152 Notre-Dame East MONTREAL, Que.
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QUEEN'S UNIVERSITY	KINGSTON, Ontario.
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REGENTS OF THE UNIVERSITY OF CALIFORNIA, THE	615 University Hall, 2200 University Ave. BERKELEY, Calif. 94720
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RETIREMENT SYSTEM OF THE INTERNATIONAL NICKEL COMPANY OF CANADA, LIMITED (CANADIAN FUND)	55 Yonge St. TORONTO.
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RICHARD AND JEAN IVEY FUND, THE	Room 820, 291 Dundas St. LONDON, Ontario.
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RICHARD IVEY FOUNDATION, THE	Room 820, 291 Dundas St. LONDON, Ontario.
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ST. LOUIS UNION TRUST COMPANY	510 Locust Street, St.Louis, Missouri 63101
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SALVATION ARMY, THE	c/o Continental Ill. National Bank & Trust Co. of Chicago, 231 LaSalle St. CHICAGO.
SASKATCHEWAN WHEAT POOL HOURLY EMPLOYEES' RETIRE- MENT FUND	CALGARY, Alta.
SASKATCHEWAN WHEAT POOL RETIREMENT FUND	CALGARY, Alta.
SECURITY MUTUAL LIFE INSURANCE COMPANY OF NEW YORK	BINGHAMTON, N.Y. 723-3551
SECURITY TRUST COMPANY OF ROCHESTER	1 East Avenue ROCHESTER, N.Y. 14604
SHELL PROVIDENT FUND	c/o Manufacturers Hanover Trust Co. 350 Park Ave. New York 10022. 212-350-3300
SHRINERS HOSPITALS FOR CRIPPLED CHILDREN	323 North Michigan Ave. CHICAGO, Ill.
STANDARD INSURANCE COMPANY	P.O. Box 711 PORTLAND, OREGON 97207
TITLE INSURANCE AND TRUST COMPANY, TRUSTEE FOR THE CONSOLIDATED PROFIT SHARING TRUST	433 South Spring St. LOS ANGELES, Cal. 90054
TITLE INSURANCE AND TRUST COMPANY, TRUSTEE OF THE "TITLE INSURANCE AND TRUST COMPANY INVESTMENT TRUST FOR EMPLOYEE BENEFIT PLANS"	433 South Spring St. LOS ANGELES, Cal. 90054
TRUSTEES BANK OF CANADA PENSION FUND	234 Wellington St. OTTAWA
TRUSTEES OF CANADA PACKERS LIMITED EMPLOYEES' PROFIT SHARING PLAN, THE	2200 St. Clair Ave. W. Toronto 9
TRUSTEES OF CANADA PACKERS RETIREMENT PLAN TRUST (1959), THE	2200 St. Clair Ave. W. Toronto 9
TRUSTEES OF THE PROCTER & GAMBLE COMPANY OF CANADA LIMITED PROFIT SHARING PENSION PLAN	P.O. Box 355, Terminal "A" 2 St.Clair Ave. W. TORONTO.



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TRUSTEES, EMPLOYEES SAVINGS AND PROFIT SHARING FUND OF DOMINION FOUNDRIES AND STEEL LIMITED	1330 Burlington St. E. HAMILTON, Ontario
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TRUSTEES OF SHEET METAL WORKERS' LOCAL NO.73 PENSION FUND	111 West Monroe CHICAGO, 60690
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TRUSTEES OF THE TORONTO BURYING GROUNDS	1643 Yonge Street, TORONTO, Ontario
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TRUSTEES OF THE VICTOR EMPLOYEES' SECURITY FUND	111 West Monroe CHICAGO 60690
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UNION CENTRAL LIFE INSURANCE COMPANY, THE	P.O. Box 179 CINCINNATI, Ohio
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UNAS INVESTMENTS LIMITED	Suite 407, 302 Bay St. TORONTO, Ontario.
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UNION LABOR LIFE INSURANCE COMPANY, THE	850 Third Ave. NEW YORK, 10022
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UNITED CHURCH OF CANADA, THE	85 St.Clair Ave. W. TORONTO 7.
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UNITED ACCUMULATIVE FUND LTD.	44 King St. W. TORONTO.
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WESTERN SAVINGS AND LOAN ASSOCIATION, THE	43 Eglinton Ave. TORONTO, Ontario.
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WILLIAM H. MINER FOUNDATION, THE	231 LaSalle St. CHICAGO c/o Continental Illinois National Bank & Trust Co. of Chicago.
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YOUNG MEN'S CHRISTIAN ASSOCIA- TION, SAVINGS PLAN AND PRIOR SERVICE FUNDS	19 South LaSalle St. CHICAGO 60603
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*E. Report on the Beaulieu Yellowknife  
Gold Mines Limited, by I. H.  
O'Connor and J. H. Collins J.*

The following is a report upon the property of Beaulieu Yellowknife Mines Limited, the financing of the Company and the trading in its shares.

The Beaulieu property consists of twelve mineral claims known as the Norma Group, situated about forty-five miles east of the Town of Yellowknife, N.W.T. The claims were staked in 1939 by Sam. Hansen and associates and at a later date Norma Tungsten & Gold Mines Limited was incorporated to test and develop the property. A small amount of prospecting and pitting was performed and some gold bearing veins were exposed. In September, 1942, a small Gibson Prospectors Mill was erected on the property and a total of about fifteen tons of ore was taken from two pits, (later to be known as Zone "A" AND Zone "B" pits) and put through the mill. The gold recovery was low due to the inadequacy of the equipment but sampling of the tailings indicated an ore grade of between four and five ounces per ton. In April, 1944, some X-Ray diamond drilling was done for assessment work. Lack of finances then appears to have prevented further development of the property.

In March, 1945, one, Emil Schnee, a mining engineer, visiting in the Yellowknife, entered into preliminary arrangements with Hansen, who was acting on behalf of the Norma Tungsten Company, for an option on the property for the sum of \$25,000.00 and 300,000 shares in a company to be formed. Schnee returned to Toronto and succeeded in interesting Samuel Ciglen, a Toronto lawyer and an experienced promoter of mining companies, in the property. Ciglen arranged for the first payment of \$10,000.00 and secured title to the claims. The balance of \$15,000.00 was to be paid and, in fact, was paid in October and 300,000 shares of a company to be formed by Ciglen were also to be issued to the Norma Tungsten Company. Ciglen's two law partners, Isadore Levinter and Benjamin Luxenberg and one, Douglas Manly, contributed to the first \$10,000.00 payment. Later one, I.J. Isbell, also an experienced promoter of mining companies, requested participation with Ciglen and his associates in the venture. Isbell had become interested in the property when an engineer employed by him, one, Julius Messer, gave a very optimistic report on the property. Isbell was admitted to participation upon the contribution by him of \$15,000.00. Beaulieu Yellowknife Mines Limited was then incorporated with an authorized capitalization of \$3,000,000.00 divided into 3,000,000 shares of the par value of \$1.00 each. The interests of the original sponsors were as follows:- Ciglen 20%; Schnee 20%; Levinter 20%; Isbell 15%; Luxenberg 12½%; Manly 12½%. The cash investment of the group at that time was, Isbell \$15,000.00; Ciglen, Levinter, Manly, Luxenberg \$2,500.00 each. Ciglen became president of the Beaulieu company, Levinter, vice-president and Isbell and Manly, directors.

The claims now held by Ciglen for the benefit of the group were transferred to the company, ostensibly for \$50,000.00 cash and 1,000,000 shares. The company then entered into an underwriting and option agreement with one, M.A. Levinter, who was acting as nominee for the group. The group hereafter will be referred to as the "Ciglen group," as Ciglen was appointed Trustee for it and was given unfettered discretion to deal with the shares and funds of the group. The underwriting and option agreement provided for the sale of 400,000 shares at 12½¢ for the sum of \$50,000.00 and options on a further 1,599,995 shares in the following amounts and prices:-





250,000	shares	@	.15¢
250,000	"	@	.20¢
250,000	"	@	.25¢
200,000	"	@	.50¢
200,000	"	@	.75¢
200,000	"	@	\$1.00
150,000	"	@	1.50
99,995	"	@	2.00

These options were to be exercised within certain time limits at the rate of 50,000 shares per month. The payment of the \$50,000.00 due by the company for the claims was satisfied by the transfer of the first 400,000 shares under the option agreement, so that the group received vendor shares in the total of 1,000,000 and treasury shares in the total of 400,000 and no cash. As of this number of shares, the 400,000 received under the underwriting and option agreement were treasury shares, a further 400,000 shares were automatically released from the escrowed vendor shares on the basis of one share of escrowed stock released for every share of treasury stock sold. A further 100,000 of the 1,000,000 vendor shares were declared free of the escrow following the usual policy of freeing 10% of the vendor interests. The Ciglen group therefore, at this time, owned 900,000 "free" shares. The balance of the vendor shares, namely 500,000, remained in escrow, 300,000 of which were owned by the Norma Tungsten company. The cost to the group of its 900,000 shares was \$25,000.00, plus incorporation and other expenses amounting to approximately \$5,000.00, or about 3¢ per share. The Ciglen group also, of course, had options on blocks of treasury shares as outlined above, commencing at .15¢.

The shares were originally offered to the public at 30¢ and the offering was well received so that all the options were exercised in accordance with the agreement, and there was no attempt by the Ciglen group at this stage to deliberately unload its cheap stock. The stock was listed and called for trading on the Toronto Stock Exchange on 23rd November, 1945.

Meanwhile Dr. A.F. Banfield was retained as consulting geologist and visited the property. He reported it to be an above average prospect and in consultation with Schnee, who was appointed mine manager, outlined a program of development and exploration, which included the laying out of a grid system and the mapping of the geology. For some reason this was not done until comparatively recently. Instead, a contract for diamond drilling was entered into with Mining Research Corporation. This drilling lasted until December, 1945, but it proved very unrevealing and the contract was not renewed. Instead Schnee, himself, took over the drilling operation and concentrated his efforts, for the most part, on the area known as "A" Zone, drilling in close proximity to and underneath the "A" Zone pit, where was located the known high grade ore. Later, in February, a resident engineer, A.E. Wilmot, was retained and the drilling was carried on by him under Schnee's direction. Full responsibility for the spotting of the holes must be attributed to Schnee. On his own admission and from our examination of the property, we find that the drilling at that time can only reasonably be described as "close" or "pinpoint" drilling. Extremely high values, were, of course, obtained as the drills were going into a shoot which was known to be very rich. Schnee claims that such "close" drilling was necessary in order to outline the extent of the ore body. That may be so, but the publication of the extremely high assays which resulted would, and did give the inexperienced and uninformed shareholder or mining speculator, an unreal and over-optimistic picture of the property. It must be said, however, that any shareholder experienced in mining matters, could always have ascertained the true picture from a careful



perusal of the entire reports issued by the company. These reports did disclose the fact that "close" drilling was being done and some even gave the reasons therefor. The reports, of course, always emphasized the high assay values received from the drilling. It is a matter of common knowledge that ordinary mining speculators look to drill core values and often to them alone for speculation guidance and the company did not miss an opportunity to satisfy their curiosity. The property crew traced the Norma vein for a distance of 1800 feet by trenching, stripping and drilling. The vein is irregular and strongly drag folded. In places it pinches off to about one-half inch in width and in others on surface, widens to approximately 2 feet. Two of these wider zones are of ore grade and are known as "A" and "B" Zones. On these zones are the two pits where the sampling was done with the Gibson Mill and where so much of the drilling was done which returned the very high values. The picture revealed by the drilling programme under Schnee, which concluded in June, 1946, showed the property to be a good prospect with one pot shaped shoot with a possible 14,000 tons of high grade ore. The property had been far from thoroughly tested. No complete job of geological mapping had been done, nor had any panning or bulk sampling been carried out. However, the drilling on the known high grade "A" Zone was very completely and enthusiastically undertaken. It is understood that recently a further programme of shaft sinking and exploration has been initiated with not unfavourable results, but this report is concerned only with the situation up to the end of May, 1946.

Turning now to the trading in the shares of Beaulieu, the initial public offering was at 30¢ and about 500,000 shares were distributed at that price. After the stock was called for trading on the Toronto Stock Exchange, an orderly and apparently uneventful market was maintained. The price eventually rose to .78¢ per share on March 1st, 1946. The rise was gradual and, no doubt based on the advertising and reports of the drill core assays. The Ciglen group always publicized the progress of the drilling very widely and very enthusiastically but it cannot be said ever falsely. As has been pointed out, the inexperienced may have been misled, especially by the advertisements and reports which mentioned only the assay values, but the full data was always available to the wary speculator during this period. The Ciglen group benefited financially by the rise in price and a distribution of some \$52,250.00 was made to the members, which, of course, represented a return of more than their original investment. The group still owned 786,975 shares. During this period the sum of \$150,000.00 cash was paid to the treasury of the company by the group in the exercise of its options. The group, of course, was able to get rid of more than the stock taken down under its option agreement and the average cost of the shares acquired by it under the option agreement, when lumped with the original 900,000 already mentioned, was extremely low. Again, however, it is pointed out that no attempt was made to conceal this state of affairs and full particulars of the option agreement were published in the usual mining periodicals and were on file with the Securities Commission for all who were interested to see.

On March 1st, 1946, however, a new situation came into being. Shortly prior thereto, Ciglen had some dealings with one, A.H. Jobson of New York City, a self-styled "professional market operator." Jobson and Ciglen had previously known each other in another mining venture and Ciglen felt he was a man with wide connections who could secure distribution of Beaulieu shares. As a result an agreement was entered into between Jobson and Ciglen, Ciglen acting on behalf of the group, whereby Jobson was given a call or option on 950,000 shares controlled by the group at scaling prices as follows: 50,000 shares at .65¢ and the balance at prices ranging from .70¢ to \$2.50 per share. Accounts were then opened in Harold A. Prescott & Company and Picard & Fleming in the





name of C. Silverman for the purpose of Jobson's operation. C. Silverman is a young lady employed in Ciglen's office as secretary to him. Ciglen takes the position that the agreement was made with Jobson so that the Ciglen group would not have to be bothered with the market operation, a matter in which he professed no experience. The group are insistent that all responsibility for the operation of these Silverman accounts was that of Jobson and not theirs. The evidence does not support this contention and we find that Jobson was always subject to Ciglen's direction in the operation of these accounts. On March 6th the group deposited 50,000 shares in the Silverman account at Prescott & Company to give Jobson a position. These shares were later paid for by Jobson together with another 100,000 shares under the terms of the sub-option agreement. In all Jobson took down only 150,000 shares of the 950,000 under this agreement and paid the Ciglen group \$105,000.00 for them. Of this sum the treasury of Beaulieu was paid \$50,000.00 by the group under its option. The group donated a further 50,000 shares free to Jobson to assist him in maintaining his position.

The primary purpose for which Jobson was placed in control of the market was to cause the public to purchase Beaulieu stock and to have orders for the purchases filled from the Silverman accounts. To do this it would be necessary to maintain or appear to create public interest. If he could cause to be sold from the accounts more stock than he bought, at an average price higher than his and the group's options, he would be fulfilling his function. During March, while the market price rose from .78¢ to \$1.44, sales of 467,800 shares were made through the Silverman accounts against purchases of 348,700 shares by these accounts, or a margin of sales of 119,100 shares. On March 31st, the Silverman accounts showed on his operation a net short position of 19,100 shares and a total credit balance of \$53,136.29. The market price of the shares at the close of March was \$1.44.

About the beginning of April the Beaulieu company was subjected to a campaign of rumours designed to break the price of the shares. As with most rumours the origin is most difficult to prove. The effect was to cause a wave of selling on the market on April 3rd and 4th and during these two days, purchases were made by Jobson of 330,300 shares which exceeded his sales on the same days by 187,300 shares. The market price on April 4th was \$2.07. It should be noted that in spite of the volume of sales during the period from the beginning of April, the price rose from \$1.44 to \$2.07. The Silverman accounts were then in a precarious state with a long position of 154,000 shares and a net debit cash balance of \$340,597.96. Jobson called upon the Ciglen group for assistance and \$100,000.00 was deposited in the Silverman account at Prescott & Company on April 5th, of which \$33,500.00 was advanced by the group and \$66,500.00 by Jobson personally. This payment by Jobson brought his total investment in the Silverman accounts up to \$80,000.00 as \$13,500.00 of his own money had been used in buying the stock taken down under the agreement. Additional monies paid for the stock under the agreement were taken out of the Silverman accounts. On April 8th, the Ciglen group advanced a further \$100,000.00 to the Silverman accounts to put them in good standing.

It was around this time that the trading of John Van Allen of New York City became an active factor in the Beaulieu market. Van Allen appears to be a professional market operator or financial agent. Unfortunately we were unable to examine him as, in spite of our efforts to locate him, it has been established that he and his wife have left this Continent. Ciglen met him in New York and Van Allen evinced interest in Beaulieu. He was given the story of the property and purchased some shares in the open market. He later requested a call on a block of stock from Ciglen at a price below the market, stating he could create



interest and distribute shares to friends and associates. It was understood by Ciglen that such shares would be placed for at least a six months holding and not be sold back on the market. Ciglen consulted with Jobson and it was subsequently agreed that Van Allen would be given a call on shares from the Silverman accounts at prices ranging from .90¢ to \$2.00. Altogether, Van Allen purchased a total of 298,500 shares, made up of 225,000 shares at a discount through the Silverman accounts and 73,500 shares at the market through accounts with Prescott; Picard & Fleming; G.C. Williams & Company, all of Toronto and Bache & Company and MacDonald & Company, Inc., of New York. The trading in these accounts was done in his own name and that of his wife, Mrs. Mercedes Van Allen. In addition to these accounts, there were 43,000 shares sold through C.J. Hodgson & Company of Montreal from an account in the name of a lawyer friend, Mr. Louis Bloomfield. The stock for the sales through the Hodgson account was obtained from Van Allen's accounts in Picard & Fleming. Shares and monies were transferred back and forth among the various accounts for no apparent reason except to confuse the issue.

Van Allen's first purchase at a discount was on April 1st, when he acquired 10,000 shares @ .90¢ and deliveries in blocks ranging from 10,000 to 30,000 shares were made up to May 17th. The following table shows a comparison between the market prices and the prices paid by Van Allen for the stock sold to him from the Silverman accounts -

<u>Date</u>	<u>Quantity</u>	<u>Price per share</u>	<u>Market prices (closing)</u>
April 1	10,000	\$ .90	169 - 170
3	10,000	1.10	207 - 208
8	20,000	1.05	202 - 203
16	10,000	1.10	208 - 209
18	10,000	.90	206 - 207
24	10,000	1.50	200 - 202
24	10,000	.90	200 - 202
25	10,000	1.50	217 - 218
26	10,000	1.20	214 - 215
29	20,000	1.50	219 - 220
30	10,000	1.00	219 - 220
May 7	25,000	1.10	215 - 217
8	10,000	2.18	239 - 240
8	10,000	1.50	239 - 240
14	10,000	2.18	233 - 234
16	10,000	1.25	264 - 265
17	30,000	2.00	250 - 253

225,000

It should be noted that although on only one day during the period did the market price fall below \$2.00, Van Allen's purchases from the Silverman accounts averaged only \$1.38 per share. His total purchases of 298,500 shares were at an average cost of \$1.37 per share and were sold for a total of \$604,186.87, an average of slightly more than \$2.00 per share. According to his various brokerage accounts, Van Allen made a profit of approximately \$195,000.00 on his Beaulieu trading.

From our examination of Van Allen's accounts, it is obvious that he acquired the Beaulieu shares for the sole purpose of unloading them on the market at a substantial profit. The stock was disposed of on the market so rapidly that his accounts showed a short position for the greater part of the time he was interested in the stock. There appears to have been very few if any, attempts to place the stock. Since the market was being maintained through the buying in the Silverman accounts, it is apparent that the bulk of Van Allen's profit was made at the expense of these accounts.





From the evidence we can only conclude that Van Allen ruthlessly betrayed the trust placed in him by the Ciglen group and in a large measure contributed to their subsequent financial embarrassment.

Another trader who received large blocks of stock at a discount from the Silverman account around this time, was S.J. Zacks of S.J. Brooks & Company. Deliveries to him were

<u>Date</u>	<u>Quantity</u>	<u>Price per share</u>	<u>Market Value (closing)</u>
April 4	25,000	1.75	207 - 208
8	15,000	2.00	202 - 203
10	19,000	2.00	211 - 212

Zacks bought and sold 178,500 shares during the period from August 31st, 1945 to April 12th, 1946, and used the aforementioned 59,000 shares to cover short positions in his account. Ciglen has testified that Zacks asked him for the block of 25,000 shares that he was sold on April 4th, saying it was for a client. Zacks has testified that this and the later blocks were taken by him on Ciglen's insistence.

On April 17th the account at Prescott was again in an unsatisfactory state with a long position of 204,000 shares and a debit balance of \$276,064.71 and consequently the Ciglen group transferred, free, 250,000 shares to the account. Jobson was finding it increasingly difficult to maintain the market and from April 1st to the date on which he stopped trading, was buying more stock than was being sold. A recapitulation of the purchases and sales in the Silverman accounts follows:-

<u>Period</u>	<u>Purchases</u>	<u>Sales</u>	<u>Excess of Purchases over Sales</u>
April 1 - 15	842,700	730,945	111,755
April 15 - 30	253,100	248,500	4,600
May 1 - 15	<u>274,000</u>	<u>275,250</u>	<u>(1,250)</u>
	1,369,800	1,254,695	115,105

During the same period (April 1st to May 15th,) the closing bid and ask prices rose from 144 - 145 on March 31st to 230 - 231 on May 15th.

From the beginning of April on, with the price of Beaulieu constantly increasing, the interest of experienced market traders was bound to be attracted. Some of these, having carefully examined the reports on the property and having secured advice from their own mining engineers, felt that the market price did not represent the true value of the property in its then state of development, but that such price was an artificial one maintained not by public interest, but solely by the sponsors through Jobson's operation. To these speculators Beaulieu was an inviting but legitimate target for a short sale. Some of the short sellers contributed to the selling wave of April 3rd and 4th but were forced to cover at a loss due to the financial strength of the Silverman accounts at that time. Towards the middle of May the short interests appeared again and we find that sixteen short sellers had total short positions of 150,800 and 139,700 shares on May 16th and 17th respectively. These short sellers sold 115,200 shares on May 16th and 30,500 on May 17th and 78,100 on May 20th.



The major traders selling short were L.R. Brooks, John Van Allen and Brian W. Newkirk and G.A. McTeigue, who traded through a joint account in McTeigue's name. The short positions of these individuals on May 16th, 17th and 20th were as follows:-

	<u>16th</u>	<u>17th</u>	<u>20th</u>
Lee R. Brooks	52,000	44,500	- -
John Van Allen	26,500	31,000	31,500
<u>Joint Account</u>			
G.A. McTeigue )			
B.W. Newkirk )	20,000	20,000	30,200

Brooks' part in the Beaulieu picture is mentioned later herein. McTeigue's account was opened on May 16th with Angus & Company, when 20,000 shares were sold short. Later short sales totalling 23,700 shares, were made on May 20th, 21st, 30th and June 10th, without any stock being received into the account. This short position was cleared by purchases during the period from June 12th to July 9th. The trading resulted in a net profit of \$37,974.16, which was split between McTeigue and Newkirk.

The Beaulieu market broke on Thursday, May 16th, although the price did not decline until the following Monday, May 20th. On May 16th the Northern Miner, which went on sale that morning, carried an editorial attacking the publicity methods of the Beaulieu Company and statements made by Ciglen regarding the worth of the property. Prior to that, very wide publicity had been given to the company, all of which emanated from Ciglen, who was, of course, the president. The Northern Miner is a very influential paper and great weight is attached to its opinion in mining circles. Following the publication of this editorial attack, a great wave of selling came into the market. Much of this was short selling but a large amount was liquidation selling. A total volume of 353,100 shares was sold on the Exchange that day. Shortly after the opening of the market, Jobson telephoned Ciglen from Prescott's office and advised him he was through with the market operation as he could not hold the price in the face of such selling. Ciglen then advised Prescott that he, personally would stand behind the Silverman account and to buy all the stock that was offered on the floor of the Exchange, and, if necessary, to bid up the price higher. This was done and the closing bid price for the day was at the all time high of \$2.64, as compared with \$2.30 for the previous day.

The purchases in the Silverman account in Prescott & Company totalled 286,300 shares against sales of 27,400, the purchases of 286,300 shares being equivalent to approximately 81% of the total Exchange volume of 353,100 shares.

On Friday, May 17th, the Exchange volume dropped to 158,475 shares and the stock closed at \$2.50. The Silverman account purchased 103,100 shares which was equivalent to approximately 65% of the Exchange volume against sales of 94,000 shares. The 94,000 sales volume includes 50,000 shares sold to Van Allen at a discount and not in the open market. The selling brokers had difficulty in obtaining stock for delivery and Prescott had accepted from these brokers, lieu slips covering large quantities of stock in place of the actual certificates. It is evident that the difficulty in obtaining certificates for delivery was due in a large extent to the short selling.

The Silverman account at Prescott & Company was again in a very unsatisfactory condition with a long position of 624,600 shares and a debit balance of \$828,377.74. The Exchange Auditor Mr. Holland Pettit, on instructions of the Management Committee of the Toronto Stock Exchange, visited





Prescott's office with a view to ascertaining Prescott's financial resources and his ability to meet his clearings of Monday, May 20th. Mr. Pettit told Prescott that the balance in the Silverman account was too large for him to carry since the capital in his and the creditor brokerage firms would be endangered if the account was not paid off. He ordered that buying of Beaulieu for the Silverman account must cease.

At the close of business on May 17th, Ciglen found himself at the end of his financial tether. His broker needed \$680,000.00 to meet the clearing on Monday, May 20th, and it was apparent that the price of Beaulieu would fall when Ciglen was forced to withdraw his bid. He looked about for financial assistance and after borrowing from his friends and relatives and receiving some contributions from some members of the group, he was still short \$228,850.00. He then approached L.R. Brooks, with the hope of raising the needed money. Brooks at the time had a short position of 44,500 shares, but it must be said that this was not hidden from Ciglen. It was not disclosed by Brooks because the information was not requested and in view of Ciglen's desperation it probably would not have influenced him in the deal which was made. A summary of the Ciglen group's position was given to Brooks, from which it appeared that the average cost of all shares then controlled by the group, including vendor shares, was \$1.15. It was agreed that Brooks would purchase from Ciglen a sufficient number of shares at \$1.15 to make available the necessary balance to meet Prescott's clearings and accordingly \$228,850.00 was advanced by Brooks in return for 199,000 shares. On the following day Brooks advanced a further \$115,000.00 to the Silverman account in return for 115,000 shares.

Upon receipt of those blocks of shares by Brooks, his short position was automatically covered and converted into a substantial long position. It was further agreed, according to Ciglen, that Brooks would take over the operation of the Beaulieu market on May 20th, market his shares and any profit that resulted would be split evenly between Brooks and the Ciglen group. Brooks, of course, knew and advised Ciglen, that the closing price on May 17th of \$2.50 could not be maintained and that it was his intention to allow the market to seek its own level. Brooks took over the market on May 20th, on which day it broke sharply and continued to gradually decline. Meanwhile he liquidated his long position. On June 13th, he called on Ciglen for a further 20,000 shares at .65¢, which he received and sold the same day on the market at \$1.02. This flattened his account in Beaulieu. Brooks' gross profit on his trading in Beaulieu was \$40,985.65. His trading was done in the name of himself, his wife and two other nominees, Percy Waxer and B.F. Wray, through accounts with fifteen different brokers, one in Montreal.

From the commencement of the Ciglen group's operations in 1945 up to March 1st, 1946, they had under their direct control 1,650,000 free shares, made up of 500,000 vendor shares costing \$30,000.00 and 1,150,000 treasury shares costing \$200,000.00. As of March 1st they were long 786,975 shares at no cost and had a profit to their credit of \$42,000.00, so that in the interval their own sales amounted to 863,025 shares for \$272,000.00, an average price of 31.5¢ per share. As of May 31st, 1946, the Ciglen group had under their control 875,930 shares at a total cost of \$743,024.90, or approximately .85¢ per share. As of May 31st, 1946, the treasury of Beaulieu had received from the Ciglen group \$210,000.00. in cash. Further payments have, of course been made since that date.

We shall now deal with the cause or causes of the break in the market price in the shares of Beaulieu. Firstly, it is our opinion that the price of Beaulieu from April 1st, until the



break, was an artificial one, stimulated and maintained by Jobson on behalf of himself and the Ciglen group through the operation of the Silverman accounts. Jobson always maintained a bid for the stock and so long as the group were financially able, never allowed it to fall below the price desired by him. The price during this period can not be said to have been fixed by public demand or buying. Whether the group was warranted in maintaining the price at such levels, in view of the state of development of the property, is a matter of opinion, as is the price of all shares of mining companies in the "prospect stage." It can, however, be definitely said that the treasury of the company did not benefit by reason of the high price of the stock or the great volume of trading, or in any way by the Jobson operation. The options, were, of course, exercised on the due dates but this could have happened even if the stock had not risen to such heights.

Secondly, the practice of selling very large blocks of stock out of the Silverman accounts at substantial discounts, or below the prevailing market price, in itself may not have caused the collapse, but when these blocks were, as invariably happened, immediately thrown back on the market to be absorbed at the market price by the Silverman accounts, disaster could not long be averted. That this situation existed can only be attributed to ineptitude on the part of the operators of the accounts and breach of faith on the part of some of the recipients of the stock.

Thirdly, the immediate cause of the break, which actually occurred on May 16th, was the flood of selling which appeared that day. This was precipitated by the editorial attack of the Northern Miner and was followed by substantial short selling. On this date some of the public had a very large profit in their Beaulieu holdings and it did not require much of an inducement for them to attempt to get out of it. The Northern Miner supplied a very authoritative inducement. The very active rumour campaign was also in evidence at this time which considerably influenced the mind of the uninformed shareholder. It is probably unnecessary to state that the Northern Miner was quite within its rights in publishing the editorial expressing its opinion of the property, so long as it did not infringe the laws of libel. In fact, Norman Pearce, the author of the article, says he felt there was a public duty on him to expose what he felt was a situation harmful to the mining industry. There was information before us to the effect that certain people had advance knowledge of the publication of the editorial which enabled them to benefit financially by selling short the stock in anticipation of the break which would occur when the editorial became public. After a thorough investigation of this phase, we have been unable to definitely establish that anyone knew in advance of the contents of the editorial, although some heard rumours of it, and the author himself categorically denies he discussed its publication with anyone before its appearance.

In our investigation we have been concerned not only with establishing the reason for this unfortunate episode in Beaulieu, but also with endeavouring to prevent a recurrence. We have found the reason for the collapse, now we must decide whether those involved are liable to criminal prosecution. Section 444 of the Criminal Code provides - "Everyone is guilty of an indictable offence and liable to seven years imprisonment who conspires with any other person by deceit or falsehood or other fraudulent means, to defraud the public or any person ascertained or unascertained, or to affect the public market price of stocks, shares, merchandise or anything else publicly sold, whether such deceit or falsehood or other fraudulent means would or would not amount to a false pretence, as hereinbefore def". The important words, so far as we are concerned in this case, are "by deceit or falsehood or other fraudulent means." We find that the Ciglen group, through the intermediary of Jobson, undertook to affect the public market price of the shares of Beaulieu. They created and maintained what





we consider to have been an artificial market but we cannot find that they used any deceit, falsehood or other fraudulent means to achieve their purpose. Their advertising, as we have said, was optimistic, enthusiastic, even flamboyant and perhaps to some, misleading, but never false. The actions of Jobson in always maintaining a bid for the stock and carrying it to such a high level cannot be said to have been fraudulent according to our criminal laws. However, were the same operation carried on in the United States, it is our opinion that it would have been in breach of Section 9 (a) (2) of The Securities Exchange Act of 1934, which provides, "It shall be unlawful for any person, directly or indirectly by the use of.....any facility or any national securities exchange.....To effect, alone or with one or more other persons, a series of transactions in any security registered on a national securities exchange creating actual or apparent active trading in such security or raising or depressing the price of such security, for the purpose of inducing the purchase or sale of such security by others," and rendered the group liable to prosecution. By Statute the United States has made it an offence to artificially manipulate a market. Whether the Criminal Code of Canada should be amended to prohibit this type of operation is a matter which we recommend should be seriously considered in the proper quarter.

Now as to short selling. Short selling on the stock market is recognized as a legitimate method of trading by every Stock Exchange known to us. The regulations governing or controlling it vary on different Exchanges. The relevant regulation on the Toronto Stock Exchange is No. 46 which provides, "No short selling of a security shall be made on this Exchange below the price at which the last sale of a board lot of the security was effected on the Exchange." It appears that this regulation is rarely, if ever, observed, as there is no provision for the floor trader being informed by the member whether a sale is short or not. Also there is no provision for a broker ascertaining from the client whether an order to sell is, in fact, an order for a short sale. Our recommendation for the amendment of this regulation and other by-laws and regulations of the Toronto Stock Exchange appear later in this report.

Much criticism of the short selling campaign was made during this investigation by the Ciglen group. It was, according to them, the major factor in the break in the market. We find that the short sellers did not observe regulation No. 46, nor did their brokers take any steps to see that such observance was enforced. This, in our opinion, was due to the fact that the by-laws and regulations are defective in not setting forth the necessary machinery to provide for an enforcement of their manifest intention. We find also that the short sellers were not compelled to make delivery within the time limits prescribed by the clearing house regulations, but they were unwittingly abetted in this by the buying broker, Prescott & Company. Prescott time and again allowed the selling broker to "leave off" a transaction from his clearing sheet and when he did force the selling broker to "put on" he accepted "lieu slips" and "lieu cheques" instead of certificates. This, of course, is permitted by the rules governing trading but certainly enables a short seller to maintain his position for an undue length of time. In such transactions the buying broker is not obliged to allow either a "leave off" or to accept a "lieu slip" or a "lieu cheque." Machinery is provided for "buying in" a defaulting broker who can not or does not make delivery on the due date. In our opinion an adequate knowledge of and the application of the rules governing trading could have forced the short interests to cover their positions to their detriment prior to May 16th. Of course between May 16th and May 20th, the date of the decline in price, there was insufficient time for Prescott to institute "buy in" proceedings. We are unable on the evidence to find that the short sellers conspired with each other in breach of Section 444 of the Criminal Code. In the evidence before us





there were allegations made that the brokers acting for the short sellers had used other clients' shares to make delivery on the short sellers behalf. Our investigation did not reveal any evidence to support these allegations.

The following recommendations to the Stock Exchange are made as a result of our investigation in Beaulieu trading and with a view to preventing a like occurrence in the future.

1. The Stock Exchange should study the daily reports of the daily buying and selling by each member broker and any rapid or unusual fluctuation in the market price of any stock should be fully enquired into. If it appears evident that a market has been, or is being, manipulated in a manner detrimental to the public interest, appropriate action should be taken and full disclosure made to the public.
2. Provision should be made in the By-Laws and Regulations of the Exchange to make it incumbent on a broker accepting any selling order to have his client declare whether it is a long or short sale and for the selling broker to pass along this information to his trader to so inform the buying trader or traders.
3. The operation of the loan post should be clarified by regulation and a strict limit be placed on the time allowed for delivery of stock against either long or short sales with borrowings of stock from the loan post to enable brokers to make deliveries within the time limit.
4. The Clearing House Rules covering lieu slips should be amended to include the stipulation that the buying broker can refuse to accept a lieu slip. Although it is the practice for some brokers to refuse lieu slips, the present Rules do not so provide and considerable confusion exists among brokers as to their rights in regard to lieu slips.
5. The present procedure under which brokers are allowed to have their own staffs perform the second semi-annual audit in each year should be changed and both semi-annual audits be conducted by the panel of accountants selected by the Exchange. The auditors should pay closer attention to the answers placed on the Stock Exchange Questionnaire issued at the time of each semi-annual audit.
6. The brokers' auditors should more closely examine the accounting systems in use in the various member houses and report to the Exchange Auditor all instances where the accounting systems are not adequate and in accordance with accepted and proper accounting principles and practice.
7. By-Law No. 30, Sec. 17, should be worded more clearly and be made more explicit regarding the type of stock position record to be maintained by the brokers and the information to be contained therein.
8. The dates as at which transactions are recorded by the member brokers, i.e., trading dates or value dates, should be uniform and all member brokers be required to record the transactions on the same date.

Respectfully submitted,

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